

**KELLOGGSVILLE
PUBLIC SCHOOLS
Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2005

KELLOGGSVILLE PUBLIC SCHOOLS
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Year ended June 30, 2005

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

August 12, 2005

The Board of Education
Kelloggsville Public Schools

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Kelloggsville Public Schools (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of Kelloggsville Public Schools as of June 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2005 on our consideration of Kelloggsville Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kelloggsville Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Alden, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

KELLOGGSVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2005

As management of the Kelloggsville Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

KELLOGGSVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2005

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 7,726,767	\$ 7,371,652
Net capital assets	<u>27,769,932</u>	<u>28,398,693</u>
Total Assets	<u>35,496,699</u>	<u>35,770,345</u>
Liabilities		
Current liabilities	2,893,342	3,042,822
Long-term liabilities	<u>17,822,891</u>	<u>18,842,000</u>
Total Liabilities	<u>20,716,233</u>	<u>21,884,822</u>
Net Assets		
Invested in capital assets, net of related debt	9,338,692	8,964,600
Restricted	580,713	453,585
Unrestricted	<u>4,861,061</u>	<u>4,467,338</u>
Total Net Assets	<u>\$ 14,780,466</u>	<u>\$ 13,885,523</u>

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

KELLOGGSVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2005

The Statement of Activities presents changes in net assets from operating results:

	2005	2004
Program Revenues		
Charges for services	\$ 425,757	\$ 478,794
Operating grants	3,475,997	2,856,745
General Revenues		
Property taxes	5,895,251	5,535,337
State school aid, unrestricted	10,534,906	10,562,398
Interest earnings	99,166	59,216
Other	72,023	256,438
Total Revenues	20,503,100	19,748,928
Expenses		
Instruction	11,348,021	10,880,993
Supporting services	5,885,524	5,167,014
Community services	204,555	204,103
Food service	851,005	825,407
Athletics	374,343	365,371
Other	3,479	—
Interest on long-term debt	936,573	976,097
Depreciation - unallocated	4,657	5,049
Total Expenses	19,608,157	18,424,034
Increase in net assets	894,943	1,324,894
Net Assets - Beginning of Year	13,885,523	12,560,629
Net Assets - End of Year	\$ 14,780,466	\$ 13,885,523

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors. Growth during the year in grants, categorical funding and student count were significant contributors to revenue increases. A mid-year pro-ration in state aid was also a factor in reducing anticipated state aid revenues.

Property taxes and state aid accounted for most of the District's revenue, contributing about 80 cents of every dollar raised. Another 17 percent came from state and federal aid for specific programs and the remainder from fees charged for services and miscellaneous sources.

The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (85 percent).

- Total revenues surpassed expenses, increasing net assets \$894,943 from the prior year. Appropriate budget controls in place along with the sale of property contributed to this.

KELLOGGSVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2005

- The cost of all governmental activities this year was \$19,608,157.
- Some of the costs were financed by the users of the District's programs totaling \$425,757.
- The federal and state governments subsidized certain programs with grants and contributions of \$3,475,997.
- The balance of the District's costs were financed by District taxpayers, state school aid and interest earnings, totaling \$16,601,346.
- This portion of governmental activities was financed with \$5,895,251 of property taxes, \$10,534,906 of unrestricted state aid based on the statewide education aid formula and investment earnings of \$99,166.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Kelloggsville Public School's funds are described as follows:

Major Fund

General Fund

The General Fund is our primary operating fund. The General Fund had total revenues of \$17,517,976, total expenditures of \$16,937,280, and total other financing uses of \$203,331. It ended the fiscal year with a fund balance of \$5,107,049, up from \$4,729,684 at June 30, 2004.

KELLOGGSVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2005

Nonmajor Funds

Special Revenue Funds

The District operates three Special Revenue Funds, for the food service, athletic and child care programs. Total revenue of all special revenue funds was \$968,611, with total expenditures of \$1,213,989, and total other financing sources of \$200,000. Of the ending fund balances, \$66,641 is attributable to the Food Service Fund, \$21,361 is attributable to the Athletic Fund and \$20,112 is attributable to the Child Care Fund.

Debt Service Funds

The District operates one Debt Service Fund. Total revenues were \$1,998,736 and total expenditures were \$1,883,378. The ending fund balance was \$663,219.

Fiduciary Funds

The Student Activity Fund is operated as an Agency Fund of the District. The assets of this fund are being held for the benefit of the District's students. Balances on hand at June 30, 2005 totaled \$285,760.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget three times to comply with Michigan Department of Education guidelines. These budget amendments fall into two categories:

- Changes made in January to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Changes in May and final changes in June for increases in appropriations to prevent budget overruns.
- On the District's final amended budget anticipated revenues exceeded expenditures by \$48,579. Appropriate budget controls in place along with the sale of property contributed to this.
- Actual revenues were \$14,728 higher than expected, due largely to local revenue changes during the year.
- Final budgeted expenditures exceeded actual expenditures by \$435,746.

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the District had a \$35,831,443 investment in a broad range of capital assets, including school buildings, athletic facilities, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in the notes to basic financial statements.)

KELLOGGSVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2005

Capital asset purchases totaled \$21,647 for the fiscal year with accumulated depreciation increasing \$650,408. The net book value of capital assets at June 30, 2005 is detailed as follows:

Land	\$ 11,584,612
Land improvements	511,034
Buildings and additions	15,301,462
Furniture and equipment	235,083
Vehicles	<u>137,741</u>
Total Capital Assets	<u><u>\$ 27,769,932</u></u>

Long-Term Debt

At year end, the District had \$19,004,971 in general obligation bonds and other long-term debt outstanding – a net reduction of \$1,050,460 from last year.

The District's bond rating for General Obligation, Unlimited Tax debt is "Aaa". The District's other obligations include an installment purchase agreement, and staff related retirement incentives and compensated absences. There is more detailed information about long-term liabilities in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The State of Michigan did not implement a pro-ration for fiscal year 2004-05; however the funding remained flat and has not increased in three years. This has created budget constraints as cost of living, retirement and health care costs continued to increase.
- The continual increase in the retirement and health care rates is monitored closely for appropriate future budget planning. The preparation of large percentage increases for the 2005-06 school year is being implemented.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Kelloggsville Public Schools, 242 – 52nd Street, Kentwood, MI, 49508.

BASIC FINANCIAL STATEMENTS

KELLOGGSVILLE PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash (Note B)	\$ 300
Cash equivalents (Note B)	1,994,940
Deposits (Note B)	3,220,938
Taxes receivable (Note C)	287,538
Accounts receivable	3,273
Accrued interest receivable	14,296
Due from other governmental units (Note C)	2,179,133
Prepaid expenses	16,605
Inventory (Note A)	9,744
Total Current Assets	<u>7,726,767</u>
Noncurrent Assets	
Capital assets (Note E)	35,831,443
Less accumulated depreciation	<u>(8,061,511)</u>
Total Noncurrent Assets	<u>27,769,932</u>
Total Assets	<u>35,496,699</u>
Liabilities	
Current Liabilities	
Accounts payable	176,351
Due to other governmental units	294,936
Accrued interest payable	150,415
Salaries payable	1,067,946
Compensated absences	21,614
Current portion of long term obligations	<u>1,182,080</u>
Total Current Liabilities	<u>2,893,342</u>
Noncurrent Liabilities (Notes A, F)	
General obligation bonds payable	17,270,000
Durant non-plaintiff bonds payable	135,160
Severance pay	89,658
Accumulated sick leave	<u>328,073</u>
Total Noncurrent Liabilities	<u>17,822,891</u>
Total Liabilities	<u>20,716,233</u>
Net Assets	
Invested in capital assets, net of related debt	9,338,692
Restricted for:	
Debt service	580,713
Unrestricted	<u>4,861,061</u>
Total Net Assets	<u>\$ 14,780,466</u>

See accompanying notes to basic financial statements.

KELLOGGSVILLE PUBLIC SCHOOLS
Statement of Activities
For the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	11,348,021	\$ 30,599	\$ 2,670,301	\$ (8,647,121)
Supporting services	5,885,524	9,256	224,516	(5,651,752)
Community services	204,555	101,058	13,449	(90,048)
Food service	851,005	239,771	567,731	(43,503)
Athletics	374,343	45,073	-	(329,270)
Other	3,479	-	-	(3,479)
Interest expense	936,573	-	-	(936,573)
Depreciation - unallocated	4,657	-	-	(4,657)
Total Governmental Activities	<u>\$ 19,608,157</u>	<u>\$ 425,757</u>	<u>\$ 3,475,997</u>	<u>(15,706,403)</u>
General Revenues				
Taxes:				
Property taxes, levied for general operations				3,909,223
Property taxes, levied for debt service				1,986,028
State school aid, unrestricted				10,534,906
Interest and investment earnings				99,166
Other				72,023
Total General Revenues				<u>16,601,346</u>
Change in Net Assets				894,943
Net Assets - Beginning of Year				<u>13,885,523</u>
Net Assets - End of Year				<u>\$ 14,780,466</u>

See accompanying notes to basic financial statements.

KELLOGGSVILLE PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Assets			
Cash (Note B)	\$ 300	\$ -	\$ 300
Cash equivalents (Note B)	1,237,284	757,656	1,994,940
Deposits (Note B)	3,220,938	-	3,220,938
Taxes receivable (Note C)	219,629	67,909	287,538
Accounts receivable	-	3,273	3,273
Due from other governmental units (Note C)	2,173,368	5,765	2,179,133
Accrued interest receivable	14,296	-	14,296
Prepaid expenditures	16,605	-	16,605
Inventory (Note A)	-	9,744	9,744
Total Assets	<u><u>\$ 6,882,420</u></u>	<u><u>\$ 844,347</u></u>	<u><u>\$ 7,726,767</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 173,468	\$ 2,883	\$ 176,351
Due to other governmental units	294,527	409	294,936
Salaries payable	1,066,133	1,813	1,067,946
Deferred revenue	219,629	67,909	287,538
Compensated absences	21,614	-	21,614
Total Liabilities	<u>1,775,371</u>	<u>73,014</u>	<u>1,848,385</u>
Fund Balances			
Reserved for:			
Debt service	-	663,219	663,219
Encumbrances	222,692	-	222,692
Unreserved:			
Undesignated, reported in:			
General fund	4,884,357	-	4,884,357
Special revenue funds	-	108,114	108,114
Total Fund Balances	<u>5,107,049</u>	<u>771,333</u>	<u>5,878,382</u>
Total Liabilities and Fund Balances	<u><u>\$ 6,882,420</u></u>	<u><u>\$ 844,347</u></u>	<u><u>\$ 7,726,767</u></u>

See accompanying notes to basic financial statements.

KELLOGGSVILLE PUBLIC SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total governmental fund balances			\$ 5,878,382
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$35,831,443 and accumulated depreciation is \$8,061,511.			
			27,769,932
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
General obligation bonds	\$ (18,285,000)		
Durant non-plaintiff bonds	(146,240)		
Severance pay	(103,658)		
Accumulated sick leave	(470,073)	(19,004,971)	
Accrued interest is not included as a liability in governmental funds.			(150,415)
Deferred revenue recognized as revenue in the full accrual statements:			
Property taxes			287,538
Total net assets - governmental activities			<u><u>\$ 14,780,466</u></u>

See accompanying notes to basic financial statements.

KELLOGGSVILLE PUBLIC SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2005

	General	Nonmajor	Total
Revenues			
Local sources	\$ 4,088,253	\$ 2,386,167	\$ 6,474,420
State sources	11,416,562	68,430	11,484,992
Federal sources	707,215	512,750	1,219,965
Interdistrict sources	1,305,946	-	1,305,946
Total Revenues	<u>17,517,976</u>	<u>2,967,347</u>	<u>20,485,323</u>
Expenditures			
Current:			
Instruction	10,435,786	-	10,435,786
Supporting services	5,334,424	-	5,334,424
Community services	57,083	123,508	180,591
Food service	-	806,853	806,853
Athletics	-	283,628	283,628
Capital outlay	54,741	-	54,741
Debt service:			
Principal repayment	63,001	940,000	1,003,001
Interest and fiscal charges	1,317	943,378	944,695
Interdistrict	990,928	-	990,928
Total Expenditures	<u>16,937,280</u>	<u>3,097,367</u>	<u>20,034,647</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>580,696</u>	<u>(130,020)</u>	<u>450,676</u>
Other Financing Sources (Uses)			
Transfers in	-	200,000	200,000
Transfers out	(200,000)	-	(200,000)
Other	(3,331)	-	(3,331)
Total Other Financing Sources (Uses)	<u>(203,331)</u>	<u>200,000</u>	<u>(3,331)</u>
Net Change in Fund Balances	377,365	69,980	447,345
Fund Balances, Beginning of Year	<u>4,729,684</u>	<u>701,353</u>	<u>5,431,037</u>
Fund Balances, End of Year	<u><u>\$ 5,107,049</u></u>	<u><u>\$ 771,333</u></u>	<u><u>\$ 5,878,382</u></u>

See accompanying notes to basic financial statements.

KELLOGGSVILLE PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2005

Net change in fund balances - total governmental funds \$ 447,345

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 21,647	
Depreciation expense	<u>(650,408)</u>	(628,761)

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. 17,777

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not effect the Statement of Activities. 940,000

Repayment of installment purchase agreements payable. 62,853

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid. 8,123

In the Statement of Net Assets, early retirement incentive, accumulated vacation pay and compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$156,402) exceeded the amounts earned (\$108,796). 47,606

Total changes in net assets - governmental activities \$ 894,943

KELLOGGSVILLE PUBLIC SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 4,033,588	\$ 4,096,975	\$ 4,088,253	\$ (8,722)
State sources	10,863,736	11,395,996	11,416,562	20,566
Federal sources	626,825	729,737	707,215	(22,522)
Interdistrict sources	1,115,333	1,280,540	1,305,946	25,406
Total Revenues	<u>16,639,482</u>	<u>17,503,248</u>	<u>17,517,976</u>	<u>14,728</u>
Expenditures				
Current:				
Instruction	10,855,181	10,459,076	10,435,786	23,290
Supporting services	4,722,178	5,722,482	5,334,424	388,058
Community services	22,808	62,509	57,083	5,426
Capital outlay	25,000	54,741	54,741	-
Debt service	-	64,318	64,318	-
Interdistrict	782,172	1,009,900	990,928	18,972
Total Expenditures	<u>16,407,339</u>	<u>17,373,026</u>	<u>16,937,280</u>	<u>435,746</u>
Excess Of Revenues Over Expenditures	<u>232,143</u>	<u>130,222</u>	<u>580,696</u>	<u>450,474</u>
Other Financing Sources (Uses)				
Loan proceeds	-	122,134	-	(122,134)
Transfers out	(227,143)	(203,605)	(200,000)	3,605
Other	(5,000)	(172)	(3,331)	(3,159)
Total Other Financing Sources (Uses)	<u>(232,143)</u>	<u>(81,643)</u>	<u>(203,331)</u>	<u>(121,688)</u>
Net Change in Fund Balances	-	48,579	377,365	328,786
Fund Balances, July 1	<u>4,729,684</u>	<u>4,729,684</u>	<u>4,729,684</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 4,729,684</u></u>	<u><u>\$ 4,778,263</u></u>	<u><u>\$ 5,107,049</u></u>	<u><u>\$ 328,786</u></u>

See accompanying notes to basic financial statements.

KELLOGGSVILLE PUBLIC SCHOOLS
Fiduciary Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2005

Assets

Cash equivalents (Note B)	<u>\$ 285,760</u>
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Liabilities

Due to student groups	<u>\$ 285,760</u>
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See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note A – Summary of Significant Accounting Policies

Kelloggsville Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 2,123 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kelloggsville Public Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements – The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service, Athletics and Child Care Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kelloggsville Public Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administra-

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

tive or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Kelloggsville Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and improvements, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and improvements	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Severance Pay/Accumulated Sick Leave

Severance pay and accumulated sick leave at June 30, 2005 has been computed and recorded in the basic financial statements of the District. Eligible District employees who retire are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2005, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for severance pay and accumulated sick leave amounted to \$103,658 and \$470,073, respectively.

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents and Deposits

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Cash Equivalents and Deposits

Depositories actively used by the District during the year are detailed as follows:

1. Byron Bank

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Balances at June 30, 2005 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Governmental Funds	\$ 5,215,878
Fiduciary Funds	<u>285,760</u>
	<u><u>\$ 5,501,638</u></u>

Cash equivalents consist of bank interest earning super NOW accounts. Deposits consist of certificates of deposit.

June 30, 2005 balances are detailed as follows:

Cash equivalents	\$ 2,280,700
Deposits	<u>3,220,938</u>
	<u><u>\$ 5,501,638</u></u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$5,501,638 and the bank balance was \$5,916,152. Of the bank balance, \$100,000 was covered by federal depository insurance and \$5,816,152 was uninsured.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2004 ad valorem State Education Taxes generated within the Kelloggsville Public School District, and paid to the State of Michigan, totaled \$2,133,863.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2004 and September, 2004. The 2004-05 "Foundation Allowance" for Kelloggsville Public Schools was \$6,700 for 2,123 "Full Time Equivalent" students, generating \$11,415,278 in state aid payments to the District, of which \$2,040,996 was paid to the District in July and August, 2005 and included in "Due From Other Governmental Units" of the General and Food Service Special Revenue Funds of the District.

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Property taxes for the District are levied July 1 and December 1 under a split-levy system by the Cities of Kentwood and Wyoming. The taxes are then collected by each governmental unit and remitted to the District. The County of Kent, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Tax Year	General	Debt Service	Total
2004	\$ 80,197	\$ 24,862	\$ 105,059
2003	80,436	27,512	107,948
2002	58,996	15,535	74,531
	<u>\$ 219,629</u>	<u>\$ 67,909</u>	<u>\$ 287,538</u>

Taxes receivable are offset by deferred revenue in the General and Debt Service Funds of the District. Taxes uncollected after three years from the date of levy are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Kelloggsville Public Schools electors previously approved a ten year operating millage extension in June 1999 for the 18 mill non-homestead property tax, which was reduced to 17.2044 mills in 2004 by the effects of the Headlee Amendment.

The District levied 5.50 mills for debt service purposes, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note D – Interfund Transfers

Operating transfers between funds during the year ended June 30, 2005 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Special Revenue Funds:		
Athletics Fund	\$ —	\$ 200,000
Special Revenue Funds		
Athletics Fund:		
General Fund	200,000	—
Total All Funds	<u>\$ 200,000</u>	<u>\$ 200,000</u>

The General Fund transfer to the Athletic Fund was made to pay the General Fund's share of support for the athletic program for the fiscal year.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balances July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2005</u>
Capital assets not depreciated:				
Land	\$ 11,584,612	\$ —	\$ —	\$ 11,584,612
Capital assets being depreciated:				
Land improvements	1,082,576	21,647	—	1,104,223
Buildings and additions	20,985,492	—	—	20,985,492
Furniture and equipment	1,444,827	—	—	1,444,827
Vehicles	712,289	—	—	712,289
Totals at historical cost	<u>\$ 35,809,796</u>	<u>\$ 21,647</u>	<u>\$ —</u>	<u>\$ 35,831,443</u>
Less accumulated depreciation for:				
Land improvements	\$ 539,341	\$ 53,848	\$ —	\$ 593,189
Buildings and additions	5,304,191	379,839	—	5,684,030
Furniture and equipment	1,069,255	140,489	—	1,209,744
Vehicles	498,316	76,232	—	574,548
Total accumulated depreciation	<u>7,411,103</u>	<u>\$ 650,408</u>	<u>\$ —</u>	<u>8,061,511</u>
Net Capital Assets	<u>\$ 28,398,693</u>			<u>\$ 27,769,932</u>

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 323,766
Supporting services	165,824
Community services	23,964
Food service	41,482
Athletics	90,715
Unallocated	4,657
	<u>\$ 650,408</u>

Note F – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2005 are summarized as follows:

	General Obligation Bonds	Durant Non-plaintiff Bonds	Severance Pay/ Accumulated Sick Leave	Total
Amount Available For Retirement Of Long-Term Debt				
Debt Service Funds	\$ 663,219	\$ —	\$ —	\$ 663,219
Amounts To Be Provided For Retirement Of Long-Term Debt				
State of Michigan	—	146,240	—	146,240
General Fund	—	—	573,731	573,731
Debt Service Funds	17,621,781	—	—	17,621,781
Total Amounts Available and To Be Provided	<u>\$ 18,285,000</u>	<u>\$ 146,240</u>	<u>\$ 573,731</u>	<u>\$ 19,004,971</u>

Changes in long-term debt for the year ended June 30, 2005 are summarized as follows:

	Debt Outstanding July 1, 2004	Debt Added	Debt Retired	Debt Outstanding June 30, 2005
General obligation bonds:				
July 1, 1998	\$ 19,225,000	\$ —	\$ 940,000	\$ 18,285,000
Durant non-plaintiff bonds:				
November 13, 1998	146,240	—	—	146,240
Installment purchase agreements	62,853	—	62,853	—
Severance pay	105,989	11,770	14,101	103,658
Accumulated sick leave	515,349	97,025	142,301	470,073
	<u>\$ 20,055,431</u>	<u>\$ 108,795</u>	<u>\$ 1,159,255</u>	<u>\$ 19,004,971</u>

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Long-term bonds and at June 30, 2005 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$2,280M Building and Site July 1, 1998: Annual maturities of 1,015M to 1,860M	May 1, 2018	4.40 – 5.15	\$ 18,285,000	\$ 1,015,000
Durant Non-plaintiff Bonds				
\$229M School Improvement November 13, 1998: Annual maturities of 11M to 54M	May 15, 2013	4.761353	146,240	11,080
			<u>\$ 18,431,240</u>	<u>\$ 1,026,800</u>

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2006	\$ 1,026,080	\$ 907,483	\$ 1,933,563
2007	1,101,605	862,294	1,963,899
2008	1,157,160	812,692	1,969,852
2009	1,254,080	773,302	2,027,382
2010	1,273,345	698,457	1,971,802
2011	1,315,000	637,971	1,952,971
2012	1,393,981	573,528	1,967,509
2013	1,464,646	503,831	1,968,477
2014	1,540,343	430,600	1,970,943
2015	1,600,000	353,588	1,953,588
2016	1,680,000	272,787	1,952,787
2017	1,765,000	186,688	1,951,688
2018	1,860,000	95,790	1,955,790
	<u>\$ 18,431,240</u>	<u>\$ 7,109,011</u>	<u>\$ 25,540,251</u>

Note G – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2005 was \$10,208,666. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The contribution rate was 12.99% for the fiscal year ending September 30, 2004 and 14.87% for the fiscal year beginning October 1, 2004. The District's contributions to the plan for the fiscal years ended June 30, 2005, 2004 and 2003 were \$1,498,846, \$1,279,775 and \$1,380,974, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPSERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2003 (the latest reporting date available expressed as \$ in millions) for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$44,769. The MPSERS' net assets available for benefits on that date were \$38,726 leaving an unfunded pension benefit obligation of \$6,043. Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2004 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,812 from September 30, 2002 to September 30, 2003. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

KELLOGGSVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note H – Risk Management and Benefits

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2005, there were no material pending claims against the District. The District paid \$53,888 in premiums to the Fund for the year ended June 30, 2005.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2005, there were no material pending claims against the District. The District paid \$7,402 in premiums to the Fund for the year ended June 30, 2005.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note I – Stewardship, Compliance and Accountability

The following District fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2005, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Food Service Special Revenue Fund	\$ 789,455	\$ 806,853	\$ 17,398

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

KELLOGGSVILLE PUBLIC SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash	\$ 300	\$ 300
Cash equivalents	1,237,284	-
Deposits	3,220,938	2,371,579
Investments	-	1,828,297
Receivables:		
Taxes	219,629	205,500
Accrued interest	14,296	8,911
Due from other governmental units	2,173,368	2,189,909
Prepaid expenditures	16,605	-
Total Assets	<u><u>\$ 6,882,420</u></u>	<u><u>\$ 6,604,496</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 173,468	\$ 314,135
Due to other governmental units	294,527	251,712
Salaries payable	1,066,133	1,043,780
Deferred revenue	219,629	243,571
Compensated absences	21,614	21,614
Total Liabilities	<u>1,775,371</u>	<u>1,874,812</u>
Fund Balances		
Reserved for encumbrances	222,692	44,384
Unreserved:		
Undesignated	4,884,357	4,685,300
Total Fund Balances	<u>5,107,049</u>	<u>4,729,684</u>
Total Liabilities and Fund Balances	<u><u>\$ 6,882,420</u></u>	<u><u>\$ 6,604,496</u></u>

KELLOGGSVILLE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2005 and 2004

	2005	2004
Local sources:		
Property taxes:		
Current property taxes	\$ 3,841,033	\$ 3,518,981
Delinquent property taxes	31,799	13,375
Other taxes	13,166	-
Interest on delinquent taxes	9,096	6,187
	<u>3,895,094</u>	<u>3,538,543</u>
Interest earnings:		
Interest on deposits and investments	80,381	46,651
Other local revenue:		
Community education fees	900	-
Summer school tuition	12,591	8,575
Driver education fees	10,945	15,825
Preschool tuition	7,063	6,905
Beverage consortium commissions	44,029	22,808
Class fees	-	1,342
Donations	1,023	-
Sale of school property	2,270	225,406
Insurance reimbursements	6,058	973
Crossing guard reimbursement	9,256	9,265
Refunds of prior years' expenditures	13,697	1,394
Miscellaneous	4,946	5,857
	<u>112,778</u>	<u>298,350</u>
Total local sources	4,088,253	3,883,544
State sources:		
State school aid	11,413,821	11,294,707
Driver education	-	13,158
School improvement	2,741	2,677
Total state sources	<u>11,416,562</u>	<u>11,310,542</u>
Federal sources:		
Title I	250,220	248,615
Title IIA	93,576	94,193
Title IID	6,318	6,045
Title V	6,614	6,581
I.D.E.A. program	323,882	301,383
Drug free schools	12,742	4,652
Medicaid - school based	1,120	-
Homeland security grant	3,266	-
Refugee grant	9,477	-
Total federal sources	<u>707,215</u>	<u>661,469</u>
Interdistrict sources:		
Special education - county	957,396	571,362
Special education - transportation	224,516	215,825
Special education - tuition	57,325	116,895
Career preparation	16,500	13,864
Durant settlement reimbursements	26,456	21,553
Medicaid fee for service	14,794	-
Transportation reimbursements	8,959	-
Total interdistrict sources	<u>1,305,946</u>	<u>939,499</u>
Total Revenues	<u><u>\$ 17,517,976</u></u>	<u><u>\$ 16,795,054</u></u>

KELLOGGSVILLE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 2,471,718	\$ 2,373,562
Employee benefits	1,044,810	905,689
Purchased services	6,372	6,735
Supplies	52,252	46,552
Equipment and furniture	15,057	-
	<u>3,590,209</u>	<u>3,332,538</u>
Middle school:		
Salaries	1,263,766	1,283,336
Employee benefits	562,024	506,755
Purchased services	5,419	3,612
Supplies	33,604	33,504
Equipment and furniture	10,724	1,399
Miscellaneous	4,400	4,630
	<u>1,879,937</u>	<u>1,833,236</u>
High school:		
Salaries	1,897,003	1,840,938
Employee benefits	771,499	748,657
Purchased services	48,092	23,789
Supplies	64,274	63,946
Equipment and furniture	66,194	22,992
Miscellaneous	17,959	16,860
	<u>2,865,021</u>	<u>2,717,182</u>
Preschool:		
Salaries	176,635	162,598
Employee benefits	97,124	63,056
Purchased services	2,223	14,431
Supplies	18,900	17,866
Miscellaneous	4,255	4,206
	<u>299,137</u>	<u>262,157</u>
Summer school:		
Salaries	11,233	15,337
Employee benefits	2,374	3,419
Supplies	-	1,281
	<u>13,607</u>	<u>20,037</u>
Total basic programs	<u>8,647,911</u>	<u>8,165,150</u>
Added needs:		
Special education:		
Salaries	718,557	704,770
Employee benefits	318,657	242,363
Purchased services	1,991	3,133
Supplies	3,066	2,565
	<u>1,042,271</u>	<u>952,831</u>

(Continued)

KELLOGGSVILLE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Compensatory education:		
Salaries	\$ 352,179	\$ 335,668
Employee benefits	257,933	194,643
Purchased services	267	20,271
Supplies	12,870	41,987
	<u>623,249</u>	<u>592,569</u>
Vocational education:		
Salaries	57,161	55,130
Employee benefits	26,275	34,984
Supplies	4,105	2,388
Equipment and furniture	34,814	-
	<u>122,355</u>	<u>92,502</u>
Total added needs	1,787,875	1,637,902
Supporting services:		
Pupil services:		
Guidance services:		
Salaries	220,684	300,888
Employee benefits	19,011	83,800
Supplies	927	1,201
	<u>240,622</u>	<u>385,889</u>
Psychological services:		
Salaries	-	46,781
Employee benefits	329	22,064
Purchased services	259	313
Supplies	229	3,232
	<u>817</u>	<u>72,390</u>
Speech pathology services:		
Salaries	41,124	78,134
Employee benefits	14,962	30,665
Purchased services	224	223
Supplies	626	2,017
	<u>56,936</u>	<u>111,039</u>
Social worker services:		
Salaries	125,537	73,921
Employee benefits	55,265	28,891
Purchased services	-	146
	<u>180,802</u>	<u>102,958</u>
Other pupil services:		
Salaries	53,360	7,588
Employee benefits	11,899	1,545
	<u>65,259</u>	<u>9,133</u>
Total pupil services	544,436	681,409

(Continued)

KELLOGGSVILLE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Instructional staff services:		
Improvement of instruction:		
Salaries	\$ 31,963	\$ 52,570
Employee benefits	35,271	40,364
Purchased services	40,568	91,461
Supplies	310	5,780
Miscellaneous	-	1,000
	<u>108,112</u>	<u>191,175</u>
Library:		
Salaries	133,143	116,260
Employee benefits	66,177	49,978
Purchased services	1,574	21,032
Supplies	20,136	13,496
Miscellaneous	-	100
	<u>221,030</u>	<u>200,866</u>
Audio - visual:		
Purchased services	1,918	1,403
Supplies	19	299
Equipment and furniture	4,221	605
	<u>6,158</u>	<u>2,307</u>
Technology assisted instruction:		
Salaries	88,913	61,296
Employee benefits	32,875	12,173
	<u>121,788</u>	<u>73,469</u>
Supervision of instruction:		
Salaries	214,264	204,965
Employee benefits	69,021	116,730
Purchased services	16,624	61,124
Supplies	73,624	51,182
Miscellaneous	295	588
	<u>373,828</u>	<u>434,589</u>
Total instructional staff services	830,916	902,406
General administrative services:		
Board of education:		
Salaries	118,685	7,320
Employee benefits	35,596	135,943
Purchased services	63,722	70,850
Supplies	5,214	5,062
Miscellaneous	8,866	8,037
	<u>232,083</u>	<u>227,212</u>
Executive administration:		
Salaries	169,201	180,509
Employee benefits	51,579	55,244
Purchased services	2,241	2,361
Miscellaneous	3,051	2,687
	<u>226,072</u>	<u>240,801</u>
Total general administrative services	458,155	468,013

(Continued)

KELLOGGSVILLE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
School administrative services:		
Office of the principal:		
Salaries	\$ 857,693	\$ 851,736
Employee benefits	364,425	301,484
Purchased services	19,018	18,362
Miscellaneous	3,403	3,966
Total school administrative services	1,244,539	1,175,548
Business services:		
Fiscal services:		
Salaries	196,417	132,810
Employee benefits	73,266	53,526
Purchased services	24,634	29,677
Supplies	17,298	14,695
Equipment and furniture	-	5,534
Miscellaneous	480	208
	312,095	236,450
Other business services:		
Purchased services	25,910	20,754
Miscellaneous	33,047	14,408
	58,957	35,162
Total business services	371,052	271,612
Operation and maintenance services:		
Operation and maintenance:		
Salaries	555,561	468,301
Employee benefits	244,901	246,764
Purchased services	211,131	197,200
Supplies	429,033	372,800
Equipment and furniture	8,531	12,321
Miscellaneous	215	164
	1,449,372	1,297,550
Security services:		
Purchased services	3,267	-
Total operation and maintenance services	1,452,639	1,297,550
Pupil transportation services:		
Pupil transportation:		
Salaries	135,125	111,856
Employee benefits	47,937	39,632
Purchased services	13,767	17,519
Supplies	26,593	14,801
Equipment and furniture	-	17,139
Miscellaneous	675	14
Total pupil transportation services	224,097	200,961

(Continued)

KELLOGGSVILLE PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Central services:		
Technology services:		
Employee benefits	\$ 1,968	\$ 8,242
Purchased services	83,765	62,223
Supplies	341	3,015
Equipment and furniture	122,336	38,709
Miscellaneous	<u>180</u>	<u>185</u>
Total central services	208,590	112,374
Community services:		
Community relations/special projects:		
Salaries	38,279	43,458
Employee benefits	8,195	8,025
Purchased services	7,656	7,699
Supplies	<u>2,953</u>	<u>2,767</u>
Total community services	57,083	61,949
Capital outlay:		
Land	-	30,862
Land improvements	32,519	-
Building improvements	<u>22,222</u>	<u>62,749</u>
Total capital outlay	54,741	93,611
Debt service:		
Principal repayment	63,001	55,112
Interest and fiscal charges	<u>1,317</u>	<u>3,062</u>
Total debt service	64,318	58,174
Interdistrict:		
Special education tuition	267,813	379,867
Special education transportation	319,576	329,645
Special education itinerants	358,345	-
Other	<u>45,194</u>	<u>11,364</u>
Total interdistrict	990,928	720,876
Total Expenditures	<u><u>\$ 16,937,280</u></u>	<u><u>\$ 15,847,535</u></u>

NONMAJOR FUNDS

KELLOGGSVILLE PUBLIC SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2005

	Special Revenue		
	Food Service	Athletics	Child Care
Assets			
Cash equivalents	\$ 52,086	\$ 21,361	\$ 20,990
Receivables:			
Taxes	-	-	-
Accounts	1,929	-	1,344
Due from other governmental units	5,765	-	-
Inventory	9,744	-	-
Total Assets	\$ 69,524	\$ 21,361	\$ 22,334
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 2,883	\$ -	\$ -
Due to other governmental units	-	-	409
Salaries payable	-	-	1,813
Deferred revenue	-	-	-
Total Liabilities	2,883	-	2,222
Fund Balances			
Reserved for debt service	-	-	-
Unreserved:			
Undesignated	66,641	21,361	20,112
Total Fund Balances	66,641	21,361	20,112
Total Liabilities and Fund Balances	\$ 69,524	\$ 21,361	\$ 22,334

Debt Service

<u>1998</u>	<u>Total</u>
\$ 663,219	\$ 757,656
67,909	67,909
-	3,273
-	5,765
-	9,744
<u>\$ 731,128</u>	<u>\$ 844,347</u>

\$ -	\$ 2,883
-	409
-	1,813
<u>67,909</u>	<u>67,909</u>
<u>67,909</u>	<u>73,014</u>
663,219	663,219
<u>-</u>	<u>108,114</u>
<u>663,219</u>	<u>771,333</u>
<u>\$ 731,128</u>	<u>\$ 844,347</u>

KELLOGGSVILLE PUBLIC SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2005

	Special Revenue		
	Food Service	Athletics	Child Care
Revenues			
Local sources:			
Property taxes	\$ -	\$ -	\$ -
Interest earnings	888	1,117	424
Sales and admissions	239,771	45,073	-
Other local sources	-	-	100,158
Total local sources	240,659	46,190	100,582
State sources	54,981	-	13,449
Federal sources	512,750	-	-
Total Revenues	808,390	46,190	114,031
Expenditures			
Current:			
Food service	806,853	-	-
Athletics	-	283,628	-
Community services	-	-	123,508
Debt service:			
Principal repayment	-	-	-
Interest and fiscal charges	-	-	-
Total Expenditures	806,853	283,628	123,508
Excess (Deficiency) of Revenues Over Expenditures	1,537	(237,438)	(9,477)
Other Financing Sources			
Transfers in	-	200,000	-
Net Change in Fund Balances	1,537	(37,438)	(9,477)
Fund Balances, July 1	65,104	58,799	29,589
Fund Balances, June 30	\$ 66,641	\$ 21,361	\$ 20,112

Debt Service

<u>1998</u>	<u>Total</u>
\$ 1,982,380	\$ 1,982,380
16,356	18,785
-	284,844
-	100,158
<u>1,998,736</u>	<u>2,386,167</u>
-	68,430
-	512,750
<u>1,998,736</u>	<u>2,967,347</u>
-	806,853
-	283,628
-	123,508
940,000	940,000
<u>943,378</u>	<u>943,378</u>
<u>1,883,378</u>	<u>3,097,367</u>
<u>115,358</u>	<u>(130,020)</u>
-	200,000
115,358	69,980
<u>547,861</u>	<u>701,353</u>
<u>\$ 663,219</u>	<u>\$ 771,333</u>

KELLOGGSVILLE PUBLIC SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2005

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
Revenues				
Local sources:				
Interest earnings	\$ 884	\$ 888	\$ 4	\$ 1,072
Sales and admissions	238,837	239,771	934	257,386
Total local sources	239,721	240,659	938	258,458
State sources	31,713	54,981	23,268	47,343
Federal sources	518,300	512,750	(5,550)	442,179
Total Revenues	789,734	808,390	18,656	747,980
Expenditures				
Current:				
Food service	789,455	806,853	(17,398)	779,262
Net Change in Fund Balances	279	1,537	1,258	(31,282)
Fund Balances, July 1	65,104	65,104	-	96,386
Fund Balances, June 30	\$ 65,383	\$ 66,641	\$ 1,258	\$ 65,104

KELLOGGSVILLE PUBLIC SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2005

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
Revenues				
Local sources:				
Interest earnings	\$ 1,149	\$ 1,117	\$ (32)	\$ 912
Sales and admissions	43,948	45,073	1,125	46,799
Total Revenues	45,097	46,190	1,093	47,711
Expenditures				
Current:				
Athletics	285,385	283,628	1,757	267,028
Excess (Deficiency) of Revenues Over Expenditures	(240,288)	(237,438)	2,850	(219,317)
Other Financing Sources				
Transfers in	200,000	200,000	-	238,500
Net Change in Fund Balances	(40,288)	(37,438)	2,850	19,183
Fund Balances, July 1	58,799	58,799	-	39,616
Fund Balances, June 30	\$ 18,511	\$ 21,361	\$ 2,850	\$ 58,799

KELLOGGSVILLE PUBLIC SCHOOLS
Child Care Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2005

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
Revenues				
Local sources:				
Interest earnings	\$ 424	\$ 424	\$ -	\$ 209
Other local sources	107,247	100,158	(7,089)	132,697
Total local sources	107,671	100,582	(7,089)	132,906
State sources	13,454	13,449	(5)	18,111
Total Revenues	121,125	114,031	(7,094)	151,017
Expenditures				
Current:				
Community services	124,406	123,508	898	116,175
Net Change in Fund Balances	(3,281)	(9,477)	(6,196)	34,842
Fund Balances, July 1	29,589	29,589	-	(5,253)
Fund Balances, June 30	<u>\$ 26,308</u>	<u>\$ 20,112</u>	<u>\$ (6,196)</u>	<u>\$ 29,589</u>

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Athletics—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

Child Care—to account for user fees and State subsidies for use in administering the child care program of the District.

KELLOGGSVILLE PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ 52,086	\$ -
Investments	-	47,768
Accounts receivable	1,929	1,929
Due from other governmental units	5,765	4,937
Inventory	<u>9,744</u>	<u>10,470</u>
Total Assets	<u><u>\$ 69,524</u></u>	<u><u>\$ 65,104</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	<u>\$ 2,883</u>	<u>\$ -</u>
Fund Balances		
Unreserved:		
Undesignated	<u>66,641</u>	<u>65,104</u>
Total Liabilities and Fund Balance	<u><u>\$ 69,524</u></u>	<u><u>\$ 65,104</u></u>

KELLOGGSVILLE PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	2005	2004
Revenues		
Local sources:		
Sales and admissions:		
Children's breakfasts	\$ 10,052	\$ 10,744
Children's lunches	159,440	158,261
Adult lunches	5,349	5,565
Milk	700	560
Ala carte	51,519	71,455
Vending machine	2,941	2,786
Banquets	9,770	8,032
Other	-	17
	<u>239,771</u>	<u>257,386</u>
Interest earnings:		
Interest on deposits and investments	888	1,072
Total local sources	<u>240,659</u>	<u>258,458</u>
State sources	54,981	47,343
Federal sources	<u>512,750</u>	<u>442,179</u>
Total Revenues	<u>808,390</u>	<u>747,980</u>
Expenditures		
Current:		
Food service:		
Salaries:		
Supervisor	26,983	28,204
Clerical	11,074	9,118
Food service	194,132	190,087
Severance pay	-	13,120
Substitutes	13,032	6,794
Employee benefits:		
Employee insurance	31,775	41,016
Retirement	30,889	25,575
Social Security	16,401	15,994
Workers' compensation insurance	353	399
Cash in lieu of benefits	16,010	19,278
Local travel	183	511
Workshops and conferences	-	68
Telephone	3,286	4,200
Mailing and postage	555	629
Waste and trash disposal	7,380	7,006
Equipment repair and maintenance	10,559	8,004
Vehicle repair and maintenance	626	360
Food	293,108	277,724
Milk	49,049	40,150
Utilities	37,041	35,000
USDA donated commodities	29,229	20,894
Non-edible supplies	32,106	26,114
Gasoline, oil and grease	1,000	724
Office supplies	885	581

(Continued)

KELLOGGSVILLE PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Food service: (Continued)		
Miscellaneous supplies	\$ -	\$ 5,406
New equipment	130	1,478
Dues and fees	-	153
Sales tax	256	95
Miscellaneous	<u>811</u>	<u>580</u>
Total Expenditures	<u>806,853</u>	<u>779,262</u>
Net Change in Fund Balances	1,537	(31,282)
Fund Balances, July 1	<u>65,104</u>	<u>96,386</u>
Fund Balances, June 30	<u><u>\$ 66,641</u></u>	<u><u>\$ 65,104</u></u>

KELLOGGSVILLE PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ 21,361	\$ -
Investments	<u>-</u>	<u>58,799</u>
Total Assets	<u><u>\$ 21,361</u></u>	<u><u>\$ 58,799</u></u>
 Liabilities and Fund Balances		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund Balances		
Unreserved:		
Undesignated	<u>21,361</u>	<u>58,799</u>
Total Liabilities and Fund Balance	<u><u>\$ 21,361</u></u>	<u><u>\$ 58,799</u></u>

KELLOGGSVILLE PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	2005	2004
Revenues		
Local sources:		
Sales and admissions:		
Athletic admissions	\$ 38,163	\$ 43,232
Fees, sales and donations	6,768	3,567
Other	142	-
	<u>45,073</u>	<u>46,799</u>
Interest earnings:		
Interest on deposits and investments	<u>1,117</u>	<u>912</u>
Total Revenues	<u>46,190</u>	<u>47,711</u>
Expenditures		
Current:		
Athletics:		
Salaries:		
Coaches	168,000	166,341
Other athletic	6,193	5,858
Clerical	6,043	-
Employee benefits:		
Retirement	25,282	21,637
Social Security	13,754	13,173
Trainer	5,775	4,478
Officials	22,134	15,436
Physicals	900	900
Local travel	959	959
Workshops and conferences	766	911
Equipment repair and maintenance	-	3,875
Purchased services	-	1,896
Security services	2,280	2,280
Supplies	329	220
Uniforms	10,636	3,581
Medical supplies	877	2,250
New equipment and furniture	7,060	12,087
Dues and fees	4,906	6,722
Tournament expense	5,068	3,233
Awards	581	1,191
Miscellaneous	2,085	-
Total Expenditures	<u>283,628</u>	<u>267,028</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(237,438)</u>	<u>(219,317)</u>
Other Financing Sources		
Transfers in	<u>200,000</u>	<u>238,500</u>
Net Change in Fund Balances	(37,438)	19,183
Fund Balances, July 1	<u>58,799</u>	<u>39,616</u>
Fund Balances, June 30	<u><u>\$ 21,361</u></u>	<u><u>\$ 58,799</u></u>

KELLOGGSVILLE PUBLIC SCHOOLS
Child Care Special Revenue Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ 20,990	\$ -
Investments	-	27,552
Accounts receivable	<u>1,344</u>	<u>3,579</u>
Total Assets	<u><u>\$ 22,334</u></u>	<u><u>\$ 31,131</u></u>
 Liabilities and Fund Balances		
Liabilities		
Due to other governmental units	\$ 409	\$ 264
Salaries payable	<u>1,813</u>	<u>1,278</u>
Total Liabilities	<u>2,222</u>	<u>1,542</u>
Fund Balances		
Unreserved:		
Undesignated	<u>20,112</u>	<u>29,589</u>
Total Liabilities and Fund Balance	<u><u>\$ 22,334</u></u>	<u><u>\$ 31,131</u></u>

KELLOGGSVILLE PUBLIC SCHOOLS
Child Care Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	2005	2004
Revenues		
Local sources:		
Other local sources:		
Summer activity fees	\$ 1,685	\$ 1,745
Child care fees	98,046	130,723
Miscellaneous	427	229
	<u>100,158</u>	<u>132,697</u>
Interest earnings:		
Interest on deposits and investments	424	209
Total local sources	<u>100,582</u>	<u>132,906</u>
State sources	<u>13,449</u>	<u>18,111</u>
Total Revenues	<u>114,031</u>	<u>151,017</u>
Expenditures		
Current:		
Community services:		
Salaries:		
Director	36,210	34,856
Aides	53,552	53,054
Employee benefits:		
Employee insurance	6,884	3,363
Retirement	13,002	11,254
Social Security	6,747	6,646
Workers' compensation insurance	177	33
Cash in lieu of benefits	955	1,201
Instructional services	167	-
Local travel	104	84
Workshops and conferences	60	-
Field trips	2,010	1,387
Postage	73	37
Teaching supplies	3,025	4,260
Replacement furniture and equipment	429	-
Dues and fees	40	-
Miscellaneous	73	-
	<u>123,508</u>	<u>116,175</u>
Total Expenditures	<u>123,508</u>	<u>116,175</u>
Net Change in Fund Balances	(9,477)	34,842
Fund Balances, July 1	<u>29,589</u>	<u>(5,253)</u>
Fund Balances, June 30	<u><u>\$ 20,112</u></u>	<u><u>\$ 29,589</u></u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

KELLOGGSVILLE PUBLIC SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2005

	<u>Balances July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2005</u>
Assets				
Cash equivalents	\$ -	\$ 580,458	\$ 294,698	\$ 285,760
Investments	<u>279,502</u>	<u>-</u>	<u>279,502</u>	<u>-</u>
Total Assets	<u><u>\$ 279,502</u></u>	<u><u>\$ 580,458</u></u>	<u><u>\$ 574,200</u></u>	<u><u>\$ 285,760</u></u>
Liabilities				
Due to student groups	<u><u>\$ 279,502</u></u>	<u><u>\$ 299,701</u></u>	<u><u>\$ 293,443</u></u>	<u><u>\$ 285,760</u></u>

OTHER INFORMATION

KELLOGGSVILLE PUBLIC SCHOOLS
Summary of 2004 Taxes Levied and Collected
For the year ended June 30, 2005

	Kent County City of		
	Kentwood	Wyoming	Total
Taxable Valuations			
Operating	\$ 51,821,842	\$ 166,386,729	\$ 218,208,571
Debt Service	130,111,766	225,531,992	355,643,758
Rates (Mills)			
General Fund			17.2044
1998 Debt Service Fund			5.5000
			<u>22.7044</u>
Taxes Levied 2004 Rolls			
General Fund	\$ 932,790	\$ 2,994,958	\$ 3,927,748
1998 Debt Service Fund	715,594	1,240,407	1,956,001
	<u>1,648,384</u>	<u>4,235,365</u>	<u>5,883,749</u>
Taxes Uncollected 2004 Rolls			
General Fund	48,327	31,870	80,197
1998 Debt Service Fund	14,765	10,097	24,862
	<u>63,092</u>	<u>41,967</u>	<u>105,059</u>
Taxes Collected 2004 Rolls			
General Fund	884,463	2,963,088	3,847,551
1998 Debt Service Fund	700,829	1,230,310	1,931,139
	<u>1,585,292</u>	<u>4,193,398</u>	<u>5,778,690</u>
Delinquent Taxes Collected			
General Fund	7,723	15,534	23,257
1998 Debt Service Fund	2,368	4,878	7,246
	<u>10,091</u>	<u>20,412</u>	<u>30,503</u>
Total Taxes Collected			
General Fund	892,186	2,978,622	3,870,808
1998 Debt Service Fund	703,197	1,235,188	1,938,385
	<u>1,595,383</u>	<u>4,213,810</u>	<u>5,809,193</u>
Taxes Uncollected – June 30, 2005			
General Fund:			
2004	48,327	31,870	80,197
2003	39,067	41,369	80,436
2002	35,618	23,378	58,996
	<u>123,012</u>	<u>96,617</u>	<u>219,629</u>
1998 Debt Service Fund:			
2004	14,765	10,097	24,862
2003	12,580	14,932	27,512
2002	10,812	4,723	15,535
	<u>38,157</u>	<u>29,752</u>	<u>67,909</u>
Total Taxes Uncollected	<u>\$ 161,169</u>	<u>\$ 126,369</u>	<u>\$ 287,538</u>

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

August 12, 2005

The Board of Education
Kelloggsville Public Schools
Grand Rapids, Michigan

The following comments pertain to our audit of the financial records of Kelloggsville Public Schools as of and for the year ended June 30, 2005. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Kelloggsville Public Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Kelloggsville Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Kelloggsville Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Kelloggsville Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Kelloggsville Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kelloggsville Public School's compliance with those requirements.

Significant Accounting Policies

The District's elected officials and management have the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise the District regarding the appropriateness of accounting policies and their application. The significant accounting policies used by Kelloggsville Public Schools are described in Note A in the Notes to Basic Financial Statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Kelloggsville Public Schools for the year ended June 30, 2005. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$42,811 to write off uncollected 2001 delinquent personal property taxes.
2. \$56,940 to record 2004 delinquent personal property taxes receivable.
3. \$38,061 to classify prior year deferred revenue into current year state aid revenue.
4. \$32,968 to adjust and classify final 2004-05 state aid revenue per the August, 2005 status report.

Food Service Fund

1. \$50,243 to record entitlement and bonus commodities received during the year.
2. \$20,057 to classify state aid received out of federal revenue.

Proposed Audit Adjustments

There were no material proposed audit adjustments not recorded by Kelloggsville Public Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Kelloggsville Public Schools to the Superintendent and Accounting Supervisor as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

The General Fund Balance of the District increased by \$377,365 to \$5,107,049 at June 30, 2005 (of which \$222,692 was reserved for open encumbrances at year end). This balance represents approximately 28 percent of the District's 2005-06 budgeted expenditures. Maintaining a fund balance of at least 20 percent of the ensuing year's expenditure budget is advisable for Kelloggsville Public Schools, as that percentage seems to be a dividing line between Districts that are required to borrow for cash-flow purposes (and incur interest expenses and loan processing fees) and those Districts that are not required to borrow. This level of fund balance also gives the District more stable operating funds during the year and acts as a buffer against the uncertainty of state aid revenues accruing to the District.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Kelloggsville Public Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Kelloggsville Public Schools Board of Directors, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Kelloggsville Public Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Aldrin, Nichols & Austin, P.C.

Certified Public Accountants